

**FORT BEND FLOOD CONTROL
WATER SUPPLY CORPORATION**

**FORT BEND COUNTY, TEXAS
Financial Report**

September 30, 2014

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
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COUNTY AUDITOR

Fort Bend County, Texas

Robert Ed Sturdivant
County Auditor

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January 21, 2015

To the Board of Directors of the Fort Bend Flood Control Water Supply Corporation, Members of the Commissioners Court, and Citizens of Fort Bend County, Texas:

The Fort Bend County Auditor's Office is pleased to present the basic financial statements of the Fort Bend Flood Control Water Supply Corporation (the "Corporation"), a component unit of Fort Bend County, Texas (the "County"), for the fiscal year ended September 30, 2014. This report is submitted in accordance with Section 114.025 of the Texas Local Government Code and was prepared by the staff of the County Auditor's Office.

Management assumes full responsibility for the completeness and reliability of the information contained in this report, based upon a comprehensive framework of internal control that it has established for this purpose. Because the cost of internal control should not exceed anticipated benefits, the objective is to provide reasonable, rather than absolute, assurance that the financial statements are free of any material misstatements.

Sandersen Knox and Company, L.L.P. has issued an unmodified ("clean") opinion on the Corporation's financial statements for the year ended September 30, 2014. The independent auditors' report is located at the front of the financial section of this report.

Management's discussion and analysis ("MD&A") immediately follows the independent auditors' report and provides a narrative introduction, overview, and analysis of the basic financial statements. MD&A complements this letter of transmittal and should be read in conjunction with it.

Profile of the Corporation

The Fort Bend Flood Control Water Supply Corporation (the "Corporation") is a non-profit corporation created in 1987 under Chapter 67 of the Texas Water Code (formerly Article 1434a, Texas Revised Civil Statutes) organized for the benefit of Fort Bend County (the "County") to provide for the acquisition, construction and financing of flood control and drainage projects for the County. Upon completion, these projects are maintained by the Fort Bend County Drainage District.

Local Economy

Fort Bend County continues to enjoy improvement in the local economy through fiscal year 2014. This is evident by growth in new home sales, labor force, and employment rate. The demand for services regarding the governmental functions performed by the County continues to increase at a greater rate. The Commissioners Court and the Corporation continue to use a conservative approach to the allocation of resources to serve the County's needs to ensure that Fort Bend County is prepared as the local

economy improves. This ongoing conservative approach will allow the County and the Corporation to meet the service demands of the residents in Fort Bend County.

Long-Term Financial Planning and Relevant Financial Policies

Budget

No annual budget is adopted for the Corporation. Budgetary controls are achieved through individual project budgeting.

Long-Term Comprehensive Plan

The Corporation will dedicate the remaining proceeds from the 2001 bond issue toward the Big Creek project in support of the Fort Bend County Drainage District's (the "District") ten-year expansion and improvement of Big Creek.

Capital Improvement Program

The Corporation's capital plan is focused on supporting the District's Big Creek project.

Debt Policy

The purpose of Fort Bend County's Debt Policy (which includes the Corporation) is to establish guidelines for the utilization of debt instruments issued by the County and the Corporation whether payable from County taxes or payable from certain revenues of the County or Corporation.

Major Initiatives

Support of the Big Creek project is the primary major initiative of the Corporation.

Acknowledgements

The preparation of this report could not be achieved without the efficient and dedicated services of the staff of the County Auditor's Office and Sandersen Knox & Company, L.L.P., our independent auditor.

Respectfully submitted,



Robert E. Sturdivant, CPA
County Auditor
Fort Bend County, Texas



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INDEPENDENT AUDITORS' REPORT

To the Board of Directors
Fort Bend Flood Control Water Supply Corporation
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of the Fort Bend Flood Control Water Supply Corporation (the "Corporation"), a component unit of Fort Bend County, Texas, as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise the Corporation's basic financial statement as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

As discussed in Note 1A, the financial statements present only the Corporation and do not purport to, and do not, present fairly the financial position of Fort Bend County, Texas, as of September 30, 2014, and the changes in its financial position, or, where applicable, its cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Corporation as of September 30, 2014,

and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 6 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Corporation's basic financial statements. The introductory section is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The introductory section has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.

A handwritten signature in cursive script that reads "Sugar Land, Texas".

Sugar Land, Texas
January 21, 2015

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Fort Bend Flood Control Water Supply Corporation (the "Corporation"), we offer readers of the Corporation's financial statements this narrative overview and analysis of the financial activities of the Corporation for the year ended September 30, 2014.

Financial Highlights

- The liabilities of the Corporation exceeded its assets at the close of the most recent fiscal year by \$6,751,672 (net deficit). This is a decrease of \$1,059,609 in the net deficit from the prior fiscal year, primarily due to the retirement of \$1,045,000 in debt.
- At the close of the current fiscal year, the Corporation's capital projects fund reported a fund balance of \$412,264, a decrease of \$67,359 from the prior fiscal year.

Overview of the Financial Statements

Management's discussion and analysis is intended to serve as an introduction to the Corporation's basic financial statements. The Corporation's basic financial statements include three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements.

Government-Wide Financial Statements

The government-wide financial statements are designed to provide readers with a broad overview of the Corporation's finances, in a manner similar to a private-sector business.

The *statement of net position* presents information on all of the Corporation's assets and liabilities, with the difference reported as net position (deficit). Over time, increases or decreases in net position (deficit) may serve as a useful indicator of whether the financial position of the Corporation is improving or deteriorating.

The *statement of activities* presents information showing how the Corporation's net position (deficit) changed during the most recent fiscal year. All changes in net position (deficit) are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

The government-wide financial statements report on the function of the Corporation that is principally supported by general revenues received from Fort Bend County, Texas (the "County").

The government-wide financial statements can be found on pages 8 and 9 of this report.

Fund Financial Statements

A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Corporation, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The Corporation maintains a debt service fund and a capital projects fund on the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances.

The debt service fund and capital projects fund are governmental funds used to account for essentially the same function reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus

on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government’s near-term financing requirements.

Because the focus of the debt service and capital projects funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented in the debt service and capital projects funds with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government’s near-term financial decisions. Both the governmental funds balance sheet and the governmental funds statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between the governmental funds and *governmental activities*.

The basic governmental fund financial statements can be found on pages 10 and 11 of this report.

Notes to the Financial Statements

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found immediately following the governmental fund financial statements in this report.

Government-Wide Financial Analysis

Net position (deficit) may serve over time as a useful indicator of a government’s financial position. In the case of the Corporation, liabilities exceeded assets by \$6,751,672 as of September 30, 2014. Below is a condensed schedule of net position (deficit) for the Corporation as of September 30, 2014 and 2013:

	2014	2013
Current assets	\$ 424,974	\$ 815,306
Total Assets	<u>424,974</u>	<u>815,306</u>
Liabilities		
Current liabilities	34,193	184,086
Long-term liabilities	7,142,453	8,265,938
Total Liabilities	<u>7,176,646</u>	<u>8,450,024</u>
Net (Deficit)	<u>\$ (6,751,672)</u>	<u>\$ (7,634,718)</u>

This net deficit is directly attributable to the \$6,665,000 of bonds payable that the Corporation has outstanding along with the unamortized bond premiums of \$477,453 as of September 30, 2014. The Corporation issues debt to finance the construction of flood control and drainage improvement projects. The Corporation constructs flood control and drainage improvement projects pursuant to contracts with the County. Under each contract, the Corporation agrees to issue bonds to finance the construction of drainage improvements, to construct drainage improvements to the respective creek, and to convey the improvements to the Fort Bend County Drainage District (the “District”).

Under each contract, the County agrees to levy and assess an ad valorem tax against all taxable property in the County in an amount sufficient to pay the debt service on the Corporation’s bonds. The Corporation has entered into a contract for the construction of drainage improvements on Oyster Creek and another contract for the construction of improvements on Big Creek.

Because the projects are turned over to the District, the Corporation does not record these projects as capital assets in its financial statements. Most flood control projects only involve increasing the width or depth of an existing creek channel. In general, the Corporation purchases fee title to the drainage right-of-way, if necessary, and conveys the drainage channel to the District. Any purchased property is

conveyed to the District, and is recorded as a capital asset in the District's financial statements. In summary, the Corporation issues debt to finance flood control projects, but does not record the project as a capital asset in its financial statements. Therefore, in general, the liabilities of the Corporation will always exceed its assets.

The following table is a condensed schedule of changes in net position (deficit) for the years ended September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
General Revenues		
Property taxes	\$ 1,324,450	\$ 1,270,718
Miscellaneous		510
Earnings on investments	1,622	5,389
Total General Revenues	<u>1,326,072</u>	<u>1,276,617</u>
Program Expenses		
Flood control projects	68,982	2,494,837
Interest and fiscal charges on long-term debt	197,481	234,647
Total Program Expenses	<u>266,463</u>	<u>2,729,484</u>
Change in Net (Deficit)	1,059,609	(1,452,867)
Net (Deficit), Beginning	<u>(7,811,281)</u>	<u>(6,358,414)</u>
Net (Deficit), Ending	<u>\$ (6,751,672)</u>	<u>\$ (7,811,281)</u>

For the year ended September 30, 2014, the Corporation's general revenues consisted of property taxes and investment income. Fort Bend County provided property tax revenues of \$1,324,450, which is an increase of \$53,732 over last year. This increase was caused by an increase of the property tax allocation by the County to meet the scheduled debt service requirements for the Corporation. Earnings on investments decreased by \$3,767 due to reduced deposit balances and interest rates. Expenses for flood control projects decreased by \$2,425,855 due to the completion of the Big Creek and Oyster Creek Projects in the prior fiscal year. Also, interest expense decreased by \$37,166 as a result of the scheduled debt service requirements for the Corporation.

Fund Financial Analysis

As of September 30, 2014, the Corporation's governmental funds, which consist of a debt service fund and a capital projects fund, reported an ending fund balance of \$412,264. The Corporation's main source of revenue is property taxes, which totaled \$1,324,450 for the year ended September 30, 2014. The Corporation's ending fund balance primarily represents the proceeds from the Corporation's 2001 series revenue bonds that were issued to fund the Big Creek project. The 2001 series bonds were refunded in 2010.

Debt Administration

As of September 30, 2014, the Corporation has \$6,665,000 of bonds payable which mature in 2021. Below is a description of the long-term debt outstanding as of September 30, 2014 and 2013:

	<u>2014</u>	<u>2013</u>
FBFCWSC Refunding Series 2010 Bonds	\$ 6,665,000	\$ 7,710,000
Premium on bonds	477,453	555,938
	<u>\$ 7,142,453</u>	<u>\$ 8,265,938</u>

Additional information on long-term debt can be found in Note 5 of the notes to financial statements.

Economic Factors

The County continues to enjoy growth in various demographic areas as the economy improves.

The population of the County is estimated at 652,365 in 2014 and is expected to grow to 776,950 by 2020.

The number of households has increased to 220,070 in 2015 and is expected to grow to 255,510 by 2020. Mean household income for 2015 is \$172,088 and is estimated to rise to \$204,744 by 2020. Income per capita is currently at \$56,291 and is expected to grow to \$67,786 by 2020.

Drainage improvements continue to be a demand from the residents of Fort Bend County. The Corporation is proceeding with several drainage projects that will enhance and compliment the County's flood control and drainage system.

Requests for Information

Any questions or concerns regarding the Corporation should be directed to management of the Corporation: Fort Bend Flood Control Water Supply Corporation, c/o Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway Suite 2600, Houston, Texas 77027. This financial report is designed to provide a general overview of the Corporation's finances for all those with an interest. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Fort Bend County Auditor's Office: Ed Sturdivant, County Auditor, Fort Bend County, Texas, 301 Jackson, Seventh Floor, Richmond, Texas 77469.

Basic Financial Statements

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
STATEMENT OF NET POSITION (DEFICIT)
September 30, 2014

	<u>Governmental Activities</u>
Assets	
Cash and cash equivalents	\$ 424,974
Total Assets	<u>424,974</u>
Liabilities	
Due to primary government	12,710
Accrued interest payable	21,483
Long-term liabilities due within one year	1,025,000
Long-term liabilities due in more than one year	<u>6,117,453</u>
Total Liabilities	<u>7,176,646</u>
Net (Deficit)	
Unrestricted	<u>(6,751,672)</u>
Total Net (Deficit)	<u>\$ (6,751,672)</u>

The accompanying notes are an integral part of these financial statements.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2014

	Governmental Activities
	<u> </u>
Program Expenses	
Flood control projects	\$ 68,982
Interest and fiscal charges on long-term debt	197,481
Total Program Expenses	<u>266,463</u>
General Revenues	
Property taxes	1,324,450
Earnings on investments	1,622
Total General Revenues	<u>1,326,072</u>
Change in Net (Deficit)	1,059,609
Net (Deficit), Beginning	<u>(7,811,281)</u>
Net (Deficit), Ending	<u><u>\$ (6,751,672)</u></u>

The accompanying notes are an integral part of these financial statements.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
BALANCE SHEET
GOVERNMENTAL FUNDS
September 30, 2014

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Assets			
Cash and cash equivalents	\$	\$ 424,974	\$ 424,974
Total Assets	<u>\$</u>	<u>\$ 424,974</u>	<u>\$ 424,974</u>
Liabilities and Fund Balances			
Liabilities			
Due to primary government		12,710	12,710
Total Liabilities		<u>12,710</u>	<u>12,710</u>
Fund Balances			
Restricted		412,264	412,264
Total Fund Balances		<u>412,264</u>	<u>412,264</u>
Total Liabilities and Fund Balances	<u>\$</u>	<u>\$ 424,974</u>	<u>\$ 424,974</u>
Fund Balances - Governmental funds			\$ 412,264
Adjustments for the Statement of Net Position (Deficit):			
Some liabilities (such as accrued interest and bonds payable) are not due and payable in the current period and therefore, are not included in the governmental funds, but are reported in the governmental activities of the Statement of Net Position.			
Accrued interest			(21,483)
Bonds payable			(6,665,000)
Premiums on bonds			<u>(477,453)</u>
Net (Deficit) of Governmental Activities			<u>\$ (6,751,672)</u>

The accompanying notes are an integral part of these financial statements.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCES - GOVERNMENTAL FUNDS
For the Year Ended September 30, 2014

	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total Governmental Funds</u>
Revenues			
Property taxes	\$ 1,324,450	\$	\$ 1,324,450
Earnings on investments		1,622	1,622
Total Revenues	<u>1,324,450</u>	<u>1,622</u>	<u>1,326,072</u>
Expenditures			
Current operating:			
Flood control projects		68,981	68,981
Debt Service			
Principal retirement	1,045,000		1,045,000
Interest and fiscal charges	279,450		279,450
Total Expenditures	<u>1,324,450</u>	<u>68,981</u>	<u>1,393,431</u>
Net Change in Fund Balances		(67,359)	(67,359)
Fund Balances, Beginning		479,623	479,623
Fund Balances, Ending	<u>\$</u>	<u>\$ 412,264</u>	<u>\$ 412,264</u>

Net change in fund balances - governmental funds \$ (67,359)

Adjustments for the Statement of Activities:

Principal payments on bonds are reported as expenditures in governmental funds but not as expenses in the government-wide statements. 1,045,000

Governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities. This amount is the net effect of these differences in the treatment of long-term debt and related items. 78,485

Some expenses reported in the Statement of Activities do not require the use of current financial resources and therefore are not reported as expenditures in the governmental funds. This adjustment reflects the net change in interest payable on the accrual basis of accounting. 3,483

Change in Net (Deficit) of Governmental Activities \$ 1,059,609

The accompanying notes are an integral part of these financial statements.

FORT BEND FLOOD CONTROL WATER SUPPLY CORPORATION
NOTES TO FINANCIAL STATEMENTS

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting Entity

These financial statements include all of the funds and activities of the Fort Bend Flood Control Water Supply Corporation (the “Corporation”), which is a component unit of Fort Bend County, Texas (the “County”). Financial statements of the Corporation are included as a blended component unit in the County’s financial statements.

The Corporation was created under the Texas Water Code as a legally separate entity. The primary criteria for the inclusion of the Corporation in the County's reporting entity, is that of financial accountability. The Commissioners Court, as the elected governing body of the County, appoints the members of the Board of the Corporation. As such, the Commissioners Court, has the ability to significantly influence the operations of the Corporation by approving all budgets, borrowings, disbursements, and other transactions. The Corporation was organized for the benefit of the County to provide for funding and construction of flood control and drainage projects for the County. Flood control projects and improvements are conveyed to and maintained by the Fort Bend County Drainage District (the “District”).

B. Implementation of New Standards

In the current fiscal year, the Corporation implemented the following new standard:

GASB Statement No. 65, *Items Previously Reported as Asset and Liabilities* (“GASB 65”), establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources and deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as asset and liabilities. Implementation of GASB 65 is reflected in the financial statements and notes to the financial statements.

Also, with this implementation, deferred charges, which consist of bond issuance costs and were amortized over the term of the bonds, are no longer recognized, but are accounted for as an expense in the period incurred. Therefore, the beginning net deficit on the Statement of Activities has been adjusted to reflect the portion of deferred charges that were incurred in prior years.

Net (Deficit), Beginning	\$ (7,634,718)
Adjustment for Deferred Charges	<u>(176,563)</u>
Net (Deficit), Restated	<u><u>\$ (7,811,281)</u></u>

C. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position (Deficit) and the Statement of Activities) report information about the Corporation as a whole and include all activities of the Corporation. The effect of interfund activity has been eliminated from the government-wide statements. All of the Corporation’s activities are reported as governmental activities, which normally are supported by taxes and intergovernmental revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use or

directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

D. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. With this measurement focus, all assets and all liabilities associated with the operations of these activities are included on the statement of net position.

The governmental fund financial statements are presented on a *current financial resources measurement focus* and *modified accrual basis of accounting*. This is the manner in which these funds are normally budgeted. Revenues are recognized as soon as they are both measurable and available. Measurable means that the amount of the transaction can be determined and available means collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Corporation considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

Under modified accrual accounting, expenditures are recognized in the accounting period in which the liability is incurred, if measurable, except for interest on long-term debt, which is recognized when due. Since the governmental fund statements are presented on a different measurement focus and basis of accounting than the government-wide statements' governmental column, a reconciliation is presented which briefly explains the adjustments necessary to reconcile fund-based financial statements with the governmental column of the government-wide presentation.

In the fund financial statements, the accounts of the Corporation are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. The following is a description of the various funds:

Debt Service Fund

The Debt Service Fund is used to account for payment of principal and interest on long-term debt.

Capital Projects Fund

The Capital Projects Fund is used to account for the resources that are restricted to the construction and acquisition of major flood control projects and improvements.

E. Budgets

The Commissioners Court adopts an annual appropriations budget for the County-wide Debt Service Fund. No individual appropriations style budget is adopted for the Corporation's individual Debt Service Fund.

F. Cash and Cash Equivalents

The Corporation's cash consists of demand deposits and investment pools.

G. Flood Control Projects and Improvements

The Corporation was formed for the purpose of financing and constructing flood control projects and improvements. Any infrastructure that has been constructed, and any land or easements purchased by the Corporation during the project are conveyed to and maintained by the District. The District records the

capital assets in its annual financial statements. Therefore, the Corporation does not record any capital assets.

H. Net Position and Fund Balances

Net Position Classifications

Net position in government-wide financial statements are classified in three categories: 1) Net investment in capital assets, 2) Restricted net position, and 3) Unrestricted net position. Net position is shown as restricted if constraints placed on use are either (1) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments or (2) imposed by law through constitutional provisions or enabling legislation. The Corporation's net position is all restricted for capital projects. It is the Corporation's policy to consider restricted – net position to have been depleted before unrestricted – net position is applied.

Fund Balance Classifications

As prescribed by GASB Statement No. 54, governmental funds report fund balance in classifications based primarily on the extent to which the Corporation is bound to honor constraints on the specific purposes for which amounts in the funds can be spent. As of September 30, 2014, fund balances for governmental funds are made up of the following:

Nonspendable Fund Balance – includes amounts that are (a) not in spendable form, or (b) legally or contractually required to be maintained intact. The “not in spendable form” criterion includes items that are not expected to be converted to cash, for example: inventories, prepaid amounts, and long-term notes receivable.

Restricted Fund Balance - includes amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may effectively be changed or lifted only with the consent of resource providers.

Committed Fund Balance – includes amounts that can only be used for the specific purposes determined by a formal action of the Corporation's highest level of decision-making authority, the Corporation's Board. Commitments may be changed or lifted only by the Corporation taking the same formal action that imposed the constraint originally.

Assigned Fund Balance – comprises amounts intended to be used by the Corporation for specific purposes that are neither restricted nor committed. *Intent* is expressed by (1) the Corporation's Board or (b) a body (for example: a budget or finance committee) or official to which the Corporation's Board has delegated the authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance – is the residual classification for the General Fund and includes all amounts not contained in the other classifications. Unassigned amounts are technically available for any purpose.

It is the Corporation's policy to consider restricted fund balance to have been depleted before using any of the components of unrestricted fund balance. Further, when the components of unrestricted fund balance can be used for the same purpose, committed fund balance is depleted first, followed by assigned fund balance. Unassigned fund balance is applied last.

The fund balances for the Corporation as of September 30, 2014 are all restricted. The fund balance in the Capital Projects fund of \$412,264 is restricted as dictated by the respective bond covenants. This fund balance is made up of remaining bond proceeds along with interest earned on these proceeds.

I. Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. In addition, these estimates and assumptions also affect the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

J. Date of Management's Review

In preparing the financial statements, the Corporation has evaluated events and transactions for potential recognition or disclosure through January 21, 2015, the date that the financial statements were available to be issued.

NOTE 2 – DEFICIT NET POSITION

The Corporation's deficit net position balance of \$6,751,672 as of September 30, 2014 is a reflection of the Corporation's organization and purpose. As previously discussed, the Corporation was formed to provide financing for flood control projects. Any infrastructure that has been constructed, as well as any land or easements purchased, is conveyed to the District and reported as a capital asset in the District's financial statements. Therefore, the debt issued by the Corporation to finance these flood control projects is not offset by capital assets acquired from these projects, resulting in a deficit net position balance.

NOTE 3 - CASH AND INVESTMENTS

A. Authorization for Deposits and Investments

The Texas Public Funds Investment Act ("PFIA"), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the Corporation.

In accordance with applicable statutes, the Corporation has a depository contract with an area bank (depository) providing for interest to be earned on deposited funds and for banking charges the Corporation incurs for banking services received. The Corporation may place funds with the depository in interest and non-interest bearing accounts. State law provides that collateral pledged as security for bank deposits must have a market value of not less than the amount of the deposits and must consist of: (1) obligations of the United States or its agencies and instrumentalities; (2) direct obligations of the State of Texas or its agencies; (3) other obligations, the principal and interest on which are unconditionally guaranteed or insured by the State of Texas; and/or (4) obligations of states, agencies, counties, cities, and other political subdivisions of any state having been rated as to investment quality by a nationally recognized investment rating firm and having received a rating of not less than A or its equivalent. Corporation policy requires the collateralization level to be at least 110% of market value of principal.

The Board of Directors has adopted a written investment policy regarding the investment of Corporation funds as required by the Public Funds Investment Act (Chapter 2256, Texas Government Code). Investments made by the Corporation are in compliance with the Corporation's investment policy. The Corporation's investment policy is more restrictive than the PFIA requires. It is the Corporation's policy to restrict its direct investments to obligations of the U.S. Government or U.S. Government Agencies, fully collateralized certificates of deposit, and local government investment pools.

As of September 30, 2014, the Corporation reported deposits in the amount of \$378,581 and the bank balance was \$378,581. The Corporation's collateral requirement, in accordance with its investment policy is 110%. Of the bank balance, the entire amount was covered by federal depository insurance or by

collateral held by the County's agent in the County's name, which totaled \$378,581 as of September 30, 2014.

B. Interest Rate Risk

Interest rate risk is the risk that changes in interest rates may adversely affect the value of the investments. The Corporation monitors interest rate risk utilizing weighted average maturity analysis. In accordance with its investment policy, the Corporation reduces its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio as a whole to no more than 3 years. At year-end, the Corporation's cash and investments balances and the weighted average maturity of these investments were as follows:

	<u>Fair Value</u>	<u>Weighted Average Maturity</u>
Demand deposits	\$ 378,581	1
Investment Pools:		
Texas CLASS	45,383	37
LOGIC - Local Government Investment Cooperative	1,010	55
Total Cash and Cash Equivalents	<u>\$ 424,974</u>	

C. Credit Risk

The Corporation's investment policy does not require investments to hold certain ratings issued by nationally recognized statistical rating organizations. As of September 30, 2014, the Corporation's investments in both the Texas CLASS and LOGIC Investment Pools were rated "AAAm" by Standard and Poor's.

D. Concentration of Credit Risk

It is the Corporation's policy to diversify its portfolio to eliminate the risk of loss resulting from a concentration of assets of a specific maturity (save and except zero duration funds), a specific issuer or a specific class of investments. To achieve this diversification, the Corporation will limit investments in specific types of securities to the following percentages of the total portfolio:

<u>Investment Type</u>	<u>Maximum Investment %</u>
Repurchase Agreements	up to 35%
Certificates of Deposit	up to 50%
U.S. Treasury Bills/Notes	up to 100%
Other U.S. Government Securities	up to 80%
Authorized Local Government Investment Pools	up to 80%
No Load Money Market Mutual Funds	up to 50%
Bankers Acceptances	up to 15%

As of September 30, 2014, 89.1% of the Corporation's cash and cash equivalents were contained in demand deposit accounts.

NOTE 4 - PROPERTY TAXES

The County provides property tax revenues to fund the Corporation's expenses. No separate tax rate is set by the County for the Corporation's debt, therefore, no taxes receivable balances are maintained in the Corporation's Debt Service Fund.

NOTE 5 - LONG-TERM DEBT

The Corporation issues contract revenue bonds for the purpose of financing flood control projects. The revenue bonds are paid through the Corporation's Debt Service Fund from property taxes levied by the County. The following schedule is a summary of changes in the Corporation's total long-term liabilities for the year ended September 30, 2014:

	<u>Balance,</u> <u>Oct. 1, 2013</u>	<u>Additions</u>	<u>(Reductions)</u>	<u>Balance,</u> <u>Sept. 30, 2014</u>	<u>Amounts Due</u> <u>Within One Year</u>
Bonds Payable:					
Revenue refunding bonds	\$ 7,710,000		\$ (1,045,000)	\$ 6,665,000	\$ 1,025,000
Premium on bonds	555,938		(78,485)	477,453	
Totals	<u>\$ 8,265,938</u>	<u>\$</u>	<u>\$ (1,123,485)</u>	<u>\$ 7,142,453</u>	<u>\$ 1,025,000</u>

Long-term liabilities of the Corporation are not due and payable in the current period, and accordingly, are not reported as fund liabilities in the governmental funds. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due.

A summary of the outstanding revenue bonds as of September 30, 2014, follows:

<u>Series</u>	<u>Original</u> <u>Issue Amount</u>	<u>Matures</u>	<u>Rate (%)</u>	<u>Principal</u> <u>Outstanding</u>
Revenue Refunding Bonds				
FBFCWSC Refunding Series 2010	\$ 9,675,000	2021	2.5 - 4.0	\$ 6,665,000
				<u>\$ 6,665,000</u>

Annual debt service requirements to maturity are summarized as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Totals</u>
2015	1,025,000	237,300	1,262,300
2016	985,000	197,100	1,182,100
2017	970,000	158,000	1,128,000
2018	955,000	119,500	1,074,500
2019	945,000	81,500	1,026,500
2020-2021	<u>1,785,000</u>	<u>57,700</u>	<u>1,842,700</u>
Totals	<u>\$ 6,665,000</u>	<u>\$ 851,100</u>	<u>\$ 7,516,100</u>

The Corporation's bonds are subject to federal arbitrage regulations. The Corporation complies with the five year reporting requirements to the Internal Revenue Service for rebate calculation. As of the date of this report, the Corporation has no contingent rebatable arbitrage.

NOTE 6 – CONTINGENT LIABILITIES

The Corporation is contingently liable for lawsuits and other claims arising in the ordinary course of its operations. The settlement of such contingencies under the budgetary process would not materially affect the financial position of the Corporation as of September 30, 2014.

NOTE 7 - RISK MANAGEMENT

The Corporation is exposed to various risks related to torts: theft of, damage to, and destruction of assets; errors and omissions; and natural disasters. The County's risk management program, which covers the Corporation, encompasses various means of protecting the County against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers, self-insurance and from participation in a risk pool. The participation of the Corporation in the risk pool is limited to the payment of premiums. Settled claims have not exceeded insurance coverage in any of the previous three fiscal years. There has not been any significant reduction in insurance coverage from that of the previous year.

NOTE 8 - BIG CREEK PROJECT

In fiscal year 2001, the Corporation issued \$11,650,000 in revenue bonds, which were refunded in 2010, to finance the Big Creek project, which has a budget of approximately \$15.7 million. The purpose of the Big Creek project is to improve and enlarge approximately twenty linear miles of channel currently being maintained by the District. More specifically, approximately \$4 million was used to design and construct a structure at the outfall of the Big Creek Bypass Channel and an erosion control structure constructed at the confluence of Big Creek and the Bypass Channel. The remaining funds are being expended to design and construct channel improvements along Big Creek from FM 762 upstream to Big Creek's confluence with Cottonwood Creek and Coon Creek, as well as to perform repairs on the Big Creek Bypass Channel outfall structure.